

Statement of the
Michigan Housing Council

Before the
Michigan State Housing Development Authority
Information Forum Regarding the
Michigan Qualified Allocation Plan

May 22, 2007

Good Afternoon. My name is Tom Higgins, and on behalf of the MHC, I would like to thank the Michigan State Housing Development Authority (MSHDA) for convening this fourth and final public forum on the Michigan Qualified Allocation Plan (QAP).

The Michigan Housing Council is one of the oldest statewide associations of affordable housing professionals in the United States. We represent owners, developers, managers, general contractors and subcontractors, architects, engineers, attorneys, financial groups, insurers, accountants, market analysts, tax credit syndicators, and other consultants, non-profits and businesses involved with Michigan's affordable housing industry. Our members live and work in nearly every part of the state of Michigan and represent every facet of the affordable housing industry.

The importance of the Low Income Housing Tax Credit (LIHTC) program to our industry cannot be underestimated. And the QAP that will be the work

product of this meeting and others like it in the coming weeks will shape not only what we do, but how we do it into the foreseeable future.

At the same time, the importance of the housing credit and the QAP to the Michigan economy also cannot be underestimated. The Joint Center for Housing Studies of Harvard University has estimated that the production of LIHTC units accounts for nearly 26 percent of all new housing units in the Midwest. Given the current economic climate in our state, we suspect that that number may be even higher. But make no mistake about it, the discussions we are having today and the decisions that will be made with regard to a new QAP will have a profound impact on the Michigan economy during the next 24 to 36 months.

At the first public forum, we identified five core assumptions that have guided the LIHTC program and the development of the Michigan QAP during the past two decades. These included:

- Consistency;
- Flexibility;
- Targeting;
- Fairness; and
- A commitment to adequate staffing levels.

By any standard – public or private - these assumptions have been effective and have delivered tens of thousands of targeted rental units into the Michigan

marketplace while creating jobs and expanding the tax base hundreds of local communities.

In the second public forum, we discussed broad areas of concern to the affordable housing industry that must be addressed in the next QAP. These areas included:

- **Processing Time for LIHTC Applications.** We believe the new QAP and MSHDA must commit to process tax credit applications in 60 days. If other states with the same or greater volume of requests as MSHDA can complete their review in 60 days, MSDHA should be able to operate in that timeframe as well.
- **Environmental and Marketing Pre-Reviews.** We believe that once a project has been pre-reviewed by staff, MSHDA should be able answer two simple questions – is there a market for the proposed development and are there environmental concerns that will stop further processing of the tax credit application. Project sponsors must be able to rely on the results of a pre-review thorough out the application process. The application process should not become a second opportunity for another review that results in a new finding that ultimately disqualifies the application. What's the benefit of a pre-review if there is no certainty in the process?

- **Cure Period for Minor Errors.** After nearly 20 years experience in reviewing tax credit applications, we believe that MSHDA should be able to identify the circumstances under which project sponsors will be allowed to cure minor, technical errors in their applications. We also believe that a cure period to correct such errors must be part of the next QAP.

Our testimony this afternoon, like our testimony in Detroit last Friday, will identify areas of broad concern. And, like the core policy assumptions and other areas of concern discussed in previous testimony, we believe these areas must be addressed by the next QAP in order to preserve the entrepreneurial spirit that has made the Michigan LIHTC program and the Michigan QAP national models.

- **Increased Incentives for Acquisition and Rehabilitation Projects.** Acquisition and rehabilitation projects are becoming an increasingly large part of the affordable housing portfolio in Michigan. Consider, for example, that less than 15 percent of all the tax credit units placed in service in Michigan in 1995 were units located in acquisition and rehabilitation projects. Today, that percentage has more than tripled. And over 50 percent of all tax credit units placed in service on an annual basis are located in acquisition and rehabilitation projects.

The shift from new construction to acquisition and rehabilitation projects is due, in part, to the preservation and smart growth incentives that are part of the current QAP. But the shift also reflects current economic conditions including soft rental markets in nearly all of the state and the reluctance of tax credit investors to fund the creation of newly constructed units in soft rental markets.

Although new construction may be a viable option in a limited number of communities - given what we know about the real estate market today and what we can see into the future - we believe that the current incentives in the QAP for preservation and other acquisition and rehab developments not only need to be maintained - they must be expanded.

- **Maintain Current Special Needs Set-Aside.** MHC recognizes and supports helping those most in need. Our track record and the generosity of our members in this regard speak for themselves.

We understand, however, that without additional public resources like Medicaid waivers or project-based vouchers or even the unfunded Housing and Community Development Fund, there are practical limits on how deeply LIHTC units may be targeted or the kind of services to be provided. Unfortunately, we have also

seen that public resources for services and operations are not without risk and – if available - are often short-term commitments when compared to the financial commitment of a 30 or 35 year mortgage.

Historically, the QAP has recognized this dynamic and relied on the creativity of the private sector to work with the public sector in order to structure transactions that serve the lowest income households possible within the financial constraints of the available resources. The result has been truly remarkable. LIHTC developments are more deeply targeted, provide a greater service component, and serve lower income households than similar developments in MSHDA's direct lending pipeline or the MSHDA portfolio.

Supportive housing incentives have been incorporated into nearly every QAP for the last seven to ten years. Yet, no information exists - and no studies have been conducted – to confirm one way or the other that these units have had an impact or to confirm that the required services are reaching the tenants. Prior to proposing any increase in the special needs holdback, we believe that MSHDA must fund an independent third party review to evaluate these units and determine what lessons can be learned

from the supportive housing units and developments that have already been placed in service.

In our opinion, there should be no increase in the supportive housing set aside until a tangible, long-term commitment to fund the necessary services has been identified and until a third party evaluation of the existing supportive housing units developed under the current and previous QAPs has been conducted.

- **Maintain Geographic Caps.** In 2005, MSHDA instituted a policy that no more than 45% of the credit reserved under any holdback or the general funding round will be allocated to projects located within a single city, village, or township. As a matter of simple fairness and to assure that every community – including communities in West Michigan - has an opportunity to receive credits, we supported this policy in 2005 and we believe that the current policy must be maintained in the next QAP.

We would like to conclude our remarks this afternoon by reiterating two points we have expressed at every public forum.

First, we believe it is absolutely essential that there be two tax credit funding rounds in 2007 and a minimum of two funding rounds during any year governed by the new QAP. The public benefit of the housing credit isn't limited

to the rental units created by the program. The public benefit of the housing credit also lies in the jobs created, the increased demand on local services and retailers, and an expanded tax base for local communities as LIHTC developments come online. If a decision is made to delay the next tax credit funding round until March of 2008 as some have suggested, by default a decision will also have been made to delay the economic activity associated with these developments for a year or more.

We see no public good coming from a decision to cancel or delay a second funding round in 2007 and as a result delay the economic benefits of the LIHTC program for a significant part of the Michigan economy at the time we need it the most.

Second, it is critically important for affordable housing practitioners to hear from MSHDA; to understand what, if any, changes you may believe are necessary; and to understand the policy assumptions or data that you believe support such changes. But MSHDA's voice has been silent throughout this entire process.

It was stated at the last public forum, however, that staff will take the information from these public forums and - along with staff recommendations - develop a new QAP over the next 30 days. Unfortunately, at no time during the last four or five weeks have we - or any other participant in these forums - heard what those recommendations may be, how such recommendations will respond

to the concerns expressed in these forums, or if the recommendations will take the QAP in an entirely new direction.

Obviously, we will know the answers to these questions in the next 30 days. But the LIHTC program and the QAP are far too important to the affordable housing industry, MSHDA, and the state of Michigan not to have a full and open discussion from all interested parties regarding these matters in this type of a setting rather than in the context of a 30-day public comment period. And we strongly recommend that **prior to the initiation of any public comment period**, MSHDA hold another series of forums so that we can hear from you and understand the reasons and the policy assumptions for the changes that you will be suggesting.

Thank you.